Manufacturing PMI falls to 8-month low

Heightened cost pressures, decline in demand for consumer goods drove the fall in October

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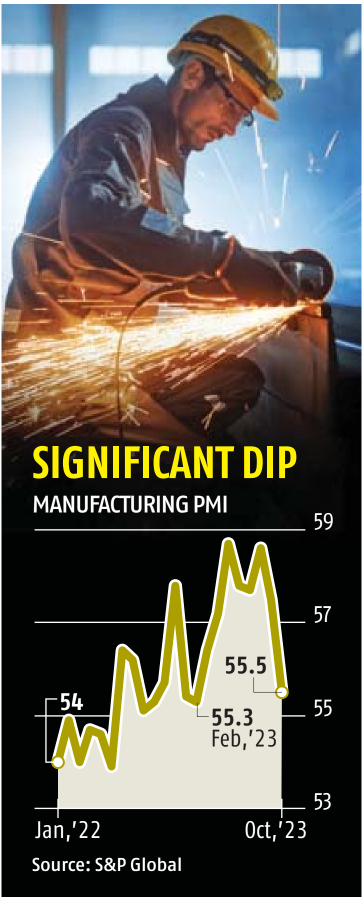

Heightened cost pressures and a decline in demand in the consumer goods sub-sector saw manufacturing activity fall to an eight-month low in October. During the month, the Purchasing Managers' Index (PMI) fell for the second consecutive month to 55.5 from 57.5 in September, the latest survey released by S&P Global on Wednesday showed.

According to the survey, growth eased in October due to competitive pressures despite an increase in new orders.

Similarly, despite growth in international sales remaining historically strong, the rise in October was the weakest in four months, pointing at a loss in momentum.

Meanwhile, the October figure marked 28 months of the index remaining above 50. A survey print above 50 indicates manufacturing expansion and below that marks contraction.

"Output increased further at the start of the third quarter this financial year, stretching the current sequence of expansion to over two years. The upturn was linked by firms to positive market conditions and healthy intakes of new work. Growth eased to an eight-month low, however, weighed by competitive pressures and weak demand at some plants. Granular data highlighted a particularly marked slowdown in the consumer goods sub-sector," the survey noted.

Pollyanna De Lima, economics associate director, S&P Global Market Intelligence, said that India's manufacturing sector generated substantial growth in October, despite a challenging global economic environment.

"The survey's new orders index slipped to a one-year low, as some firms raised concerns about the current demand picture for their products. Consumer goods were behind most of the slowdown, recording considerably softer increases in sales, production, exports, input inventories and buying levels. Growth of all the aforementioned variables was led by capital goods makers, which, with the exception of new orders, registered accelerated rates of expansion," she added.

The survey also notes that the ongoing increases in new business continued to spur recruitment efforts among goods producers in India.

However, with fewer than 4 per cent of companies hiring extra staff and 95 per cent leaving workforce numbers unchanged, the rate of job creation was the slowest since April.

"October data pointed to sufficient capacity levels at Indian manufacturers, as backlogs of work were little changed since September. Concurrently, suppliers were often able to deliver inputs in a timely manner, with vendor performance being broadly stable," it noted.

On the price front, the survey said that the trends remained mixed as both input costs and output charges increased. However, inflation of the former accelerated, especially for aluminium, chemicals, leather, paper, rubber and steel, while the factory gate charges rose to a weaker extent.

"We saw further indication of broadly-stable inflationary forces across the manufacturing industry. It appears that a moderate increase in input costs was simply passed on to clients. Nonetheless, qualitative evidence from the future output question revealed an interesting finding, as reports of rising inflation expectations were expected to dent demand and subsequently production growth over the coming 12 months," added De Lima.